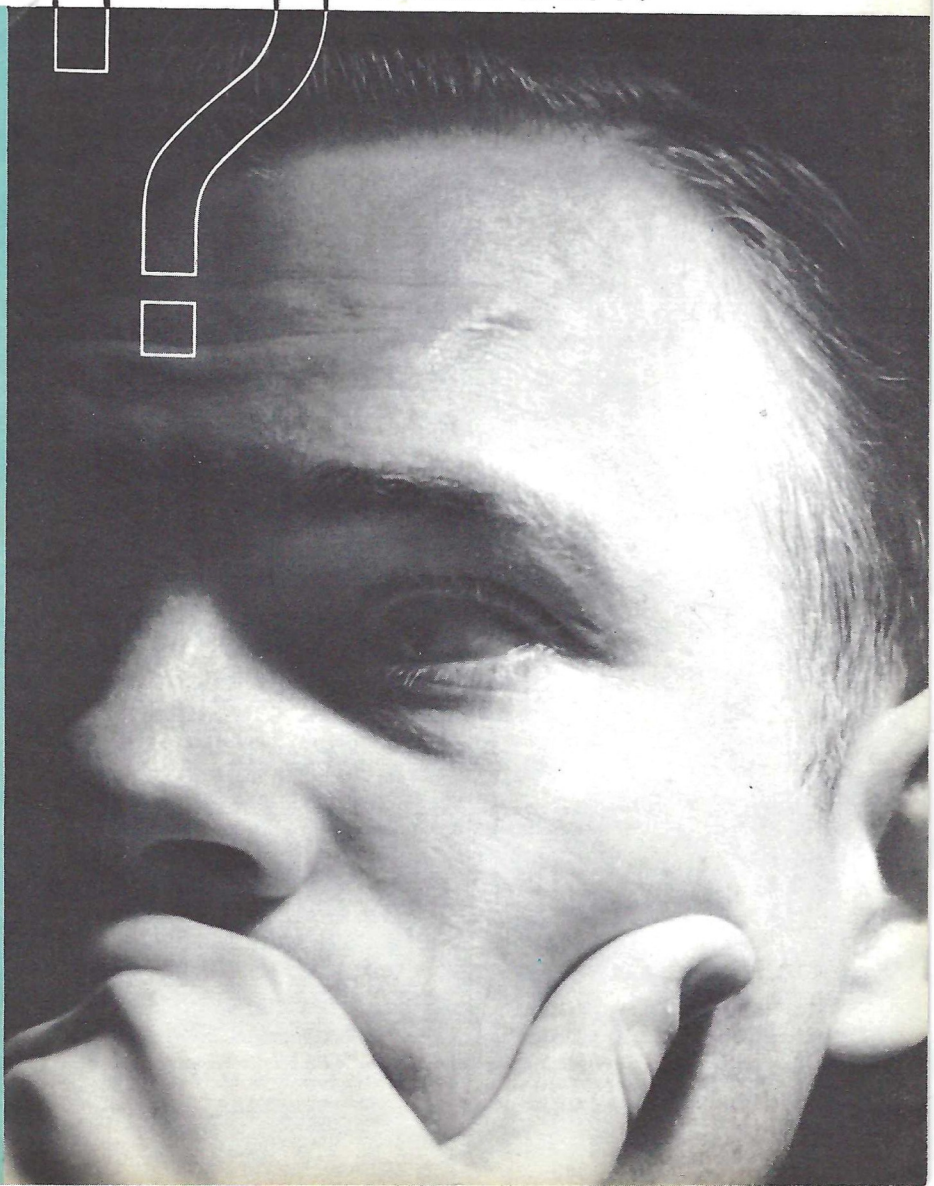
WILL LOWER TARIFFS CREATE GREATER PROSPERITY?



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By Harry Schwartz

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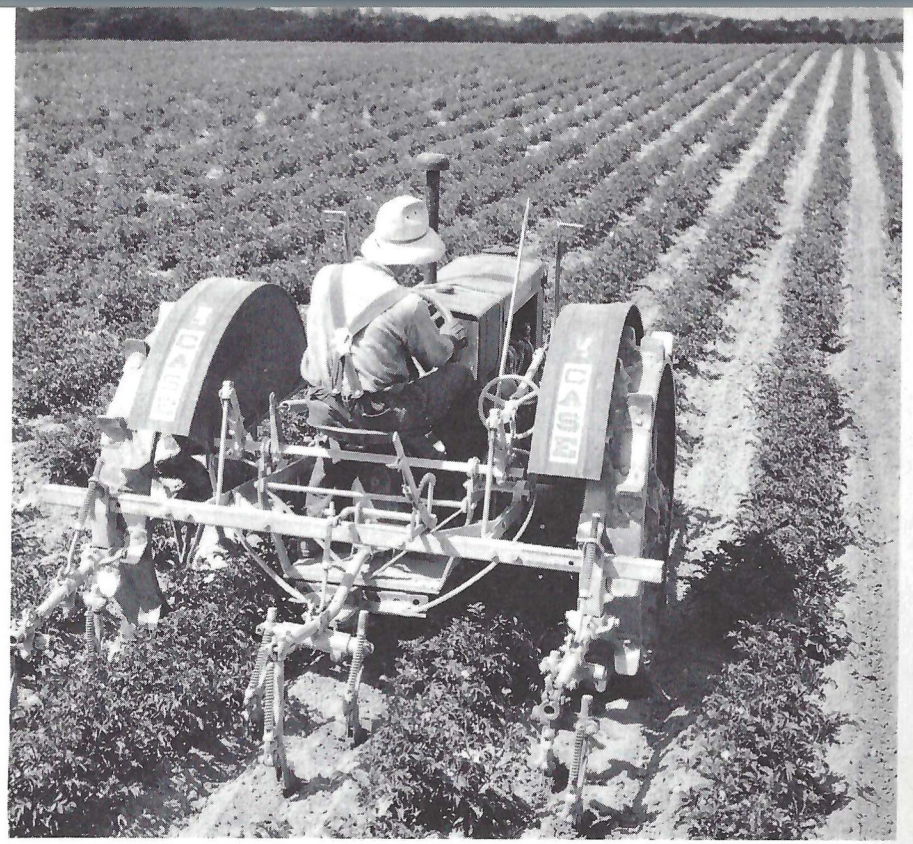
Ever stop to think about how much of your daily life depends on things we buy from other countries? If you haven't, you ought to. That coffee you drank for breakfast this morning probably came from Brazil or Colombia, while the sugar you sweetened it with may well have come from the Philippines. That small and inexpensive four-cylinder car your son just bought came from Germany or France, while that new adding machine your sister works on in the office came from Sweden. And that portable typewriter you bought your daughter as a graduation present came from Italy. Those tires you depend on to have the family jalopy take you from home to the plant and back again every day are made from rubber that grew in Malaya or Indonesia or Liberia or some other country thousands of miles away. That good suit you bought the other day probably contains wool from Australia or Argentina, and there's almost certainly copper from Chile or Africa in the electrical and telephone wiring in your home. Life in this country would be a lot different—and a lot less pleasant for most of us—if it weren't for the many different things available from other countries all over the world.

Of course, we don't get all this foreign merchandise for nothing. We have to pay for it, first, in dollars and cents and then eventually in our own goods which people in other countries want. When a man in Brazil or Japan or Sweden takes a plane trip, chances are he'll ride in an American plane—anything from one of the old reliable DC-3's to the most up-to-date 600 mile-an-hour Boeing 707 or Douglas DC-8 jet. A German who warms his house with a coal stove is likely to be shoveling American coal into that stove many a morning during the winter months. Oranges that have ripened on trees in Florida and California supply a good deal of the orange juice people drink in Canada. American cotton is the raw



Many of the potatoes being cultivated by this farmer in Michigan will be shipped out of the country to feed people around the world.

material for a large fraction of the shirts sold in this world in lots of places between Tokyo and London. And you'd find many familiar American brand names if you were shopping for refrigerators or automobiles in Hong Kong or Panama City.

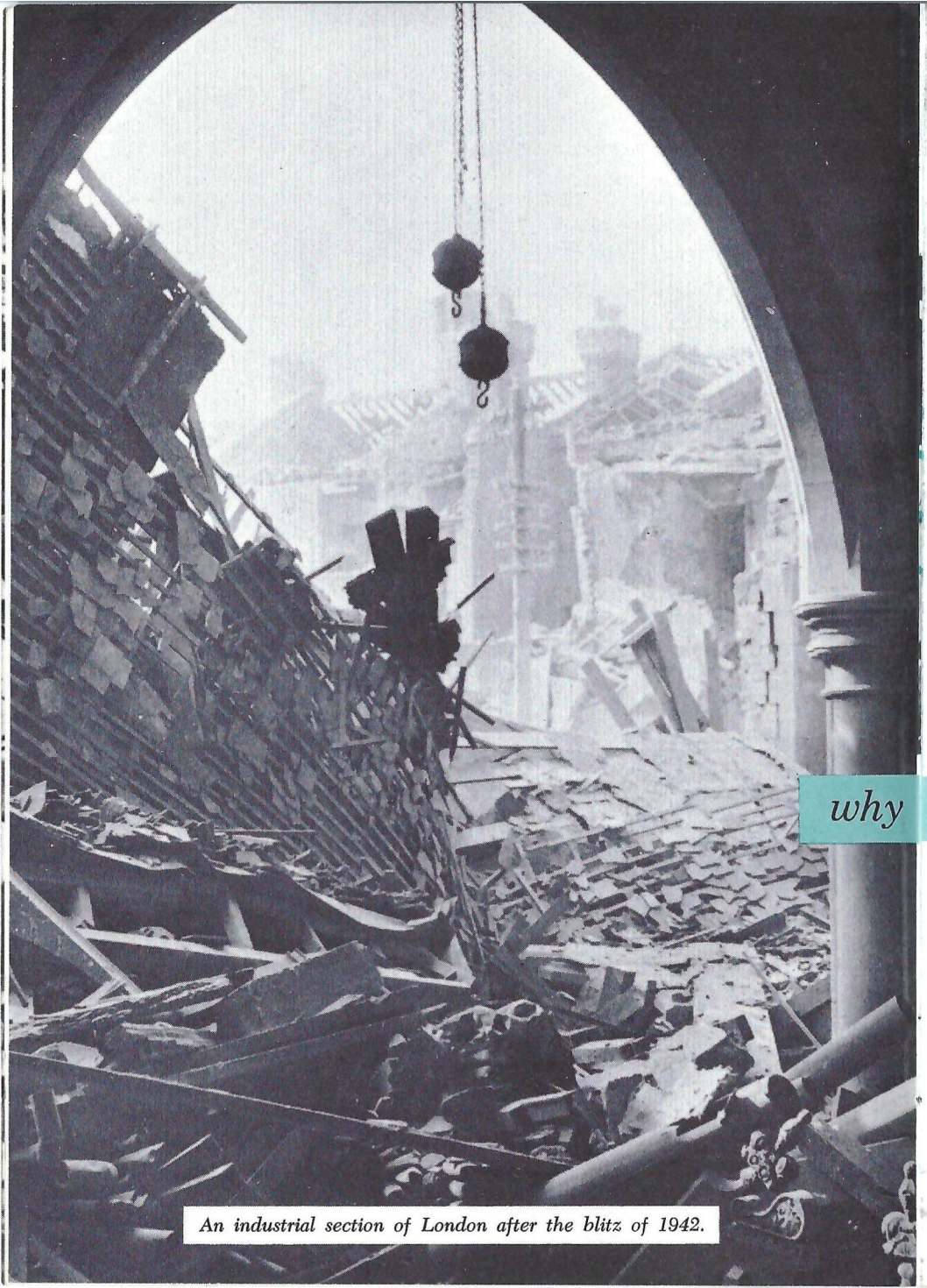
All these goods we sell abroad mean a lot of jobs for people here, both in the cities and on the farms. One out of every three factory workers, for example, is working for a company that sells part of its production abroad. We sell so much cotton, rice, wheat, tobacco, soybeans and other farm products abroad that on the average, one out of every seven farm workers is working full time growing stuff to be shipped out of the country. Millions of jobs, in short, depend upon foreigners buying our goods and how much of our goods they buy. And the people here in the U. S. who owe their jobs to foreign customers are customers in their own right too. The things they buy in the grocery stores, in the department stores, and even in the

beauty parlors give jobs to even more millions of Americans.

With so many millions of jobs depending on foreign trade, it is clearly a serious matter. When it increases, there are more jobs at good pay. But when our foreign trade goes down, there can be trouble for people who lose their jobs and for businessmen who find themselves without enough orders and have to cut production.

Just to give you an idea of how very big an item foreign trade is, you might remember that we did over $35 billion —that's right billion, not million—worth of business with foreign countries last year. They bought about $20 billion worth of goods from us, and we bought about $15 billion worth of merchandise from them. And besides that, of course, American tourists spent about $2 billion vacationing abroad and foreigners who came here spent about $1 billion while they visited us. And don't forget it costs a lot of money to keep American GI's overseas — from Korea and Japan to West Germany where they stand guard against Communist attack. And a good many American firms invest money in factories or mines or plantations in other countries, and these bring back profits to this country. If you take everything into account —goods we buy and sell, tourists, GI's, investments, and the like—you find that all the business we do with the rest of the world each year amounts to something around $60 billion, a very large sum, indeed, and worth remembering.

Modern technology and equipment are the keys to the mass-production of these automobile engines at a plant in Cleveland.



An industrial section of London after the blitz of 1942.

why problems have developed

Undoubtedly you've noticed from newspapers or from some of the television shows that in recent years we've been running into some serious problems in the business we do with the rest of the world. Since these problems can affect the way we live and the number of jobs available for our people, they're worth looking at and thinking about.

One problem is the fact that competition in the world market is getting tougher than it used to be. In the postwar years between 1946 and 1950, most of the other important countries in the world were still in pretty bad shape because of the shortage of manpower and destruction of factories resulting from the war. In those days we used to be able to sell abroad everything we could spare, because these other countries were still trying to rebuild and get back on their feet. Then, the only problem was the question of how these people who wanted to buy our goods could pay for them, how they could get the dollars we wanted in return for our merchandise.

Things have changed a lot since then. All the chief countries of the world—Britain, France, West Germany, Japan, and others—have long since recovered, and they're producing far more goods than they ever did before World War II. And much of what they're turning out is high quality merchandise. And, furthermore, most serious of all from our point of view, is the fact that some of the goods they turn out are produced more cheaply than ours, and therefore can be sold for a lower price on the world market.

All you have to do to see signs of this competition is to look around you. Notice how many foreign cars you see on the road, for example, and try to remember that as recently as 1955 there were practically none here. And any friend who's interested in photography can tell you how many of the cameras sold here are made in Germany and Japan. If your youngster has bought a typewriter recently you may find he's bought one made in Italy or Switzerland or Germany.

The result is that a lot of American businesses are finding themselves under competitive pressure even here in the United States market as well as in foreign countries particularly, as foreign firms introduce more modern manufacturing facilities. Now, you may have heard some complaints that this foreign competition is unfair because foreign workers normally get paid less than American workers do. Generally, though, the efficiency of American workers, teamed with advanced machinery and technology, is such that he can turn out more units per hour than his opposite abroad. For example, while a U. S. coal miner is paid eight times as much as his Japanese counterpart, he mines fourteen times as much coal per hour. The result is that our costs—and thus the price we charge for coal—is much smaller.

A second problem is the fact that we're not paying our way completely in our business dealings with the rest of the world. The fancy way of saying it is that we're running a balance of payments deficit. What it means is simply that our total expenditures abroad, for all purposes — foreign capital investments, tourists' vacations, the cost of supporting soldiers abroad and foreign aid—exceeds our receipts from foreign expenditures here. As a result, more money goes out of the country than comes in. Fortunately, up to now we've been able to meet these debts because we have the world's largest stock pile of gold, almost $17 billion worth. But a few years ago we had well over $20 billion worth. The difference is explained because we've had to transfer gold to other countries to make up for the fact that we weren't earning enough abroad to pay all our bills. Obviously this can't go on forever, and already some people have gotten nervous about the future value of the dollar.

You don't have to look far to find a scene like the one above depicting the great influx of foreign cars appearing on our streets and highways today.

Something has to be done so that we start paying our way again and end the drain on our gold supply.

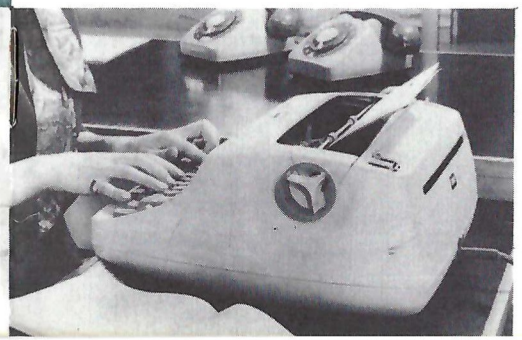
A third problem is posed by the recent creation of the European Common Market. Quite simply, major countries — France, West Germany, Italy, Belgium, Holland, and Luxembourg — of Western Europe have banded together and are trying to become one country economically. The result is that Western Europe has the fastest growing economy and the fastest rising standard of living for its people in the world. The Common Market countries hope to make it possible for goods to move just as freely between West Germany and France for example as goods move here between New York and New Jersey or Illinois and Indiana. To do that the Western European nations are cutting the tariff barriers that have existed between them up to now. But at the same time they are creating what will soon, in effect, be a common tariff barrier to all outsiders. The outlook, therefore, is that our own business will be placed at a crippling competitive disadvantage, since our goods will have to pay the tariff, while goods made anywhere within the Western European Common Market area will not. Put another way, we face the prospect that in a few years much of the present $6 billion trade in goods we sell Western Europe could vanish. The jobs of a good many American workers and the profits of a good many American businesses are obviously at stake. The problems are likely to be even bigger when Britain joins the Common Market as now seems almost certain.

What can we do about these problems? How do we meet the even-tougher competition from other countries? How do we start earning enough abroad to pay for our spending abroad? How do we give our goods a chance to compete on equal terms in the key Western European market? And how do we, at the same time, help U. S. industry, agriculture and workers affected by foreign competition?

President Kennedy's program

A great debate is now beginning to sweep the country about these problems. Businessmen, union leaders, professors, government officials, and others have been exchanging ideas and arguing. On some phases of the matter there is agreement pretty generally. On other phases there is some pretty violent disagreement.

The point on which everybody



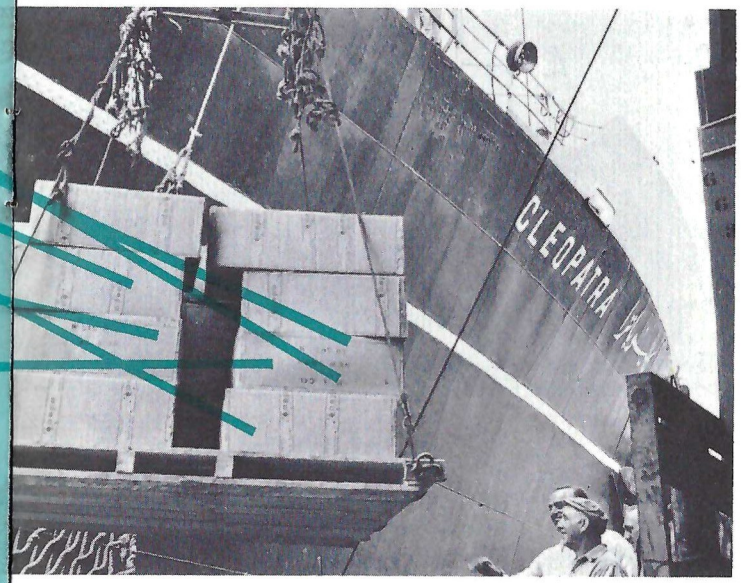
American-made typewriter currently finding favor in London.

seems to be agreed is that every business in America has got to make itself more competitive. We've got to produce better goods at lower cost so that we can offer customers here and abroad a better value than our foreign competitors. Our designers have to be more ingenious in the products they come up with. Our workers have to be more productive and lower the wage cost per unit of product. Our inventors have to come up with new and cheaper ways of producing things.

The alternative is to see more and more of our markets at home and abroad taken over by our foreign competitors. And every market we lose because we aren't producing goods of competitive quality and competitive price is reflected sooner or later in people here at home losing their jobs, or being forced to work only part time.

The biggest argument that's going on these days, however, centers around a program President Kennedy put before Congress last January. At a time when an increasing number of U.S. industries are asking for more government protection and for higher tariffs to keep out less costly foreign merchandise, the President has made proposals in quite a different direction. He wants the power to be able to reduce tariffs drastically on many kinds of goods. Some people have greeted these ideas with cheers; other people are denouncing these ideas as ruinous. Before we try to look at the arguments of each side, let's see specifically what the President is asking for.

Basically, the President is asking for increased power to cut tariffs in order to have bargaining weapons which will enable him to deal with the European Common Market. He wants the general authority to cut tariffs by half on all goods in return for corresponding tariff cuts by the Common Market. On some goods – in cases where the United States and Western Europe produce almost all the world's supply – the President wants the authority to remove tariffs altogether, in return for corresponding concessions, of course. Finally, the President wants to be able to make tariff cuts over wide categories of goods – say all chemicals, or all electrical goods – rather than have to bargain commodity by commodity as the law requires now.



Foreign-made goods being unloaded at an Eastern port.

All this is very strong medicine for those people who think tariffs aren't high enough yet. So the President has also promised to help the people who might be hurt by increased foreign competition. A worker who loses his job, for example, will be entitled to get 65 per cent of his normal wages up to 52 weeks. And a displaced worker over 60 years of age would be entitled to this assistance for 65 weeks, not 52. President Kennedy also wants to retrain displaced workers and to provide financial help so they may move to other communities where new jobs are available. For businessmen who may be hurt by the program, the President offers tax benefits and loans so that a businessman can shift his activities from one area to another.

In the coming months, Congress is going to resound with arguments for and against the President's proposals. The key arguments on both sides, however, already are known.

First, the President needs drastic tariff cutting power if he is to be able to make the needed deals with the Common Market. Anything less radical than the power he is requesting would greatly reduce most of the $6,000,000,000 worth of export business we do with Western Europe annually.

Second, the President's program will probably increase jobs here. The number of persons here who would really be hurt by the tariff cuts proposed, the President believes, is very small. According to the President, less than ½ of one percent of all U.S. workers might be adversely affected by a sharp rise in imports. By adopting his proposal, he believes, the number of jobs here will increase for at least three reasons.

One, with lower tariffs abroad we will be able to sell far more goods to foreign countries than we sell now.

Two, and no less important, the lowering of tariffs on our goods abroad would ease a serious problem of recent years — the building of foreign plants by American firms that fear the Common Market tariff wall will make it almost impossible for them to sell their made-in-America products in Western Europe.

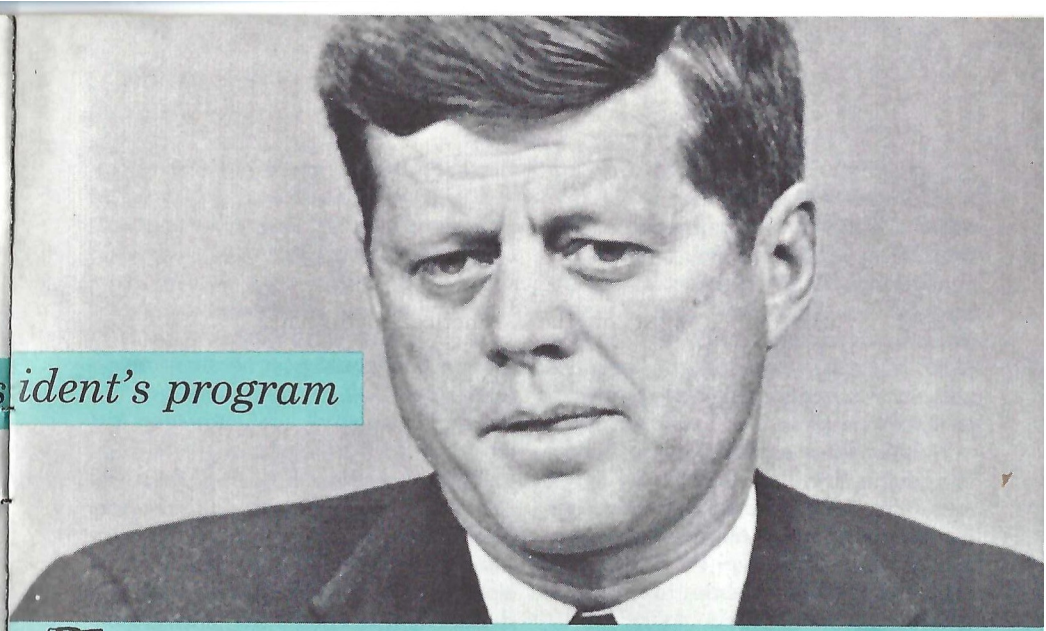
This last point deserves some explanation. Let's say Company X has been making nails here and selling a lot of those American-made nails to Western Europe. Now, Company X sees that its nails may not be saleable in Western Europe because nail-producing companies within the Common Market aren't faced with the same tariff problem that he is. As a result, Company X is under very great pressure to build a nail plant somewhere in Western Europe and sell only Western European nails to that area, not American-made nails.

the case for the president's program

What the President hopes, however, is that if he is given the power to cut tariffs in deals with the Common Market, firms like Company X will not be under pressure to build plants in Western Europe. Instead, he hopes they will expand here at home and provide more jobs.

Third, President Kennedy thinks that lower tariffs are a way to invigorate our own economy. He believes that American businessmen and workers have the ingenuity and industry to meet any foreign competition. The more foreign competition there is, the more incentive our firms and workers have to produce better products and to produce them more cheaply. Some people point out, for example, that it was not until the American automobile firms had to face the competition of small foreign cars here that they decided to turn out the compact cars which have taken a third or more of the U.S. car market recently. And the compact cars, it is also pointed out, have tended to increase the sale of American cars abroad.

Competition, in short, is held to be essential for a really sound economy and lower tariffs tend to make for more competition.



the case against the president's program

What is being said in opposition to the Kennedy program?

First, many opponents think that far more American workers and businesses would be hurt by tariff reductions than the President has contemplated. They argue therefore that the President's program could add seriously to unemployment and business bankruptcies.

Second, there is deep skepticism that American businesses can effectively compete with foreign businesses. They argue that the fundamental advantage many foreign companies have is that they pay their workers much less than American workers are paid, and that the difference in wages is too great to be made up for by other means.

Third, many opponents resent the powers the President would have — powers which constitutionally have resided with Congress — giving him life and death authority over many companies and many industries. In effect, these opponents ask why the President should be allowed to decide that some companies go into financial difficulties and some workers lose their jobs.

Fourth, opponents of the President's program cite a dangerous effect upon our technological leadership. They contend that if American products lose out to European products, U. S. businesses will cut back on vital research in order to minimize profit losses.

Fifth, there are arguments that tariff bargaining within the limits presently allowed, has not been good enough. Some opponents say we've been giving away needless concessions and getting too little for too much in tariff cutting deals. They criticize the new trade pro-

gram for placing emphasis solely on tariffs, while foreign countries practice other forms of trade discrimination such as special taxes on imports, exchange and licensing controls and import quotas. They insist that our goal in trade negotiations should be to win equal rights for American products not only in tariff cuts, but with respect to other restrictions.

Finally, there are critics who, pointing to the President's proposed relief measures, ask why a worker who loses his job because of foreign competition, should receive more help than one who loses it because of domestic competition.

The pressure being exerted on Congress by people who fear they may be hurt is enormous and one of the key sources of political opposition to the President's program.

Other Implications

The debate is likely to go on for many months. If Congress turns down the President's program, Washington sources have indicated, he will submit it again next year. There are reports that President Kennedy regards this program as one of the central accomplishments he hopes to have adopted during his Presidency, reasoning that this Congressional decision will determine whether there is to be economic warfare among the nations of the free world, or economic cooperation among them.

All the major forces of our time, the President apparently believes, require us to move closer and closer to our friends abroad and to lower steadily the tariff barriers which separate their markets and ours. The alternative course, he also believes, could be a splitting of the free world alliance which would offer Moscow tempting opportunities to damage the cause of freedom and advance the cause of world Communism.

Thus the whole future of the Cold War, not merely economic factors affecting the future of individual companies, is involved in Congress' decision to approve or reject the President's recommendations. The greater the volume of trade between this country and the rest of the free world, the stronger will be the ties of common interest which will bind these nations together. If the free world alliance is to be politically healthy, the President argues, it must be economically healthy as well. On the other hand the ill will that would be generated if our trade with Western Europe were suddenly to drop precipitously because of the Common Market, could hardly help spreading to areas of political and military cooperation on which the free world's common defense against Communist aggression depends. Moscow is well aware of this, and Soviet and Communist propaganda often tries to emphasize the points of economic friction in the relations between the United States and its allies.

Moreover, the President could well point out that already we are deeply involved in many important common undertakings with our Western European allies on which much of our future economic and political well being depends. One such arrangement is the recent agreement under which the major free world nations will support each other in the world's currency markets. As a result, if the value of the dollar were to be endangered for one reason or another, the other chief free world nations have agreed to provide substantial financial support for the dollar. We, of course, have agreed to do the same if any one of these other nations' currencies runs into difficulties. The nations of the free world, including ourselves, are also cooperating in the important work of the Organization for Economic Cooperation and Development. One of the main projects this organization is now working on is a concerted effort to increase the total production of these free world nations by 50 per cent in the next decade. This goal, if achieved, would mean higher living standards for the peoples of the free world and also provide an effective reply to the Soviet propaganda about the high rate of economic growth in the Soviet Union.

Finally it is worth remembering that the benefits of maximum trade with other countries are felt by us all as consumers in many ways. Foreign goods give greater choice when we go out to buy something than we would have if we could only choose from among things made in this country. Just think, for example, of how many different kinds and brands of automobiles we can pick among when we go out to buy a car. And many foreign goods, of course, are available at lower cost than corresponding domestic articles. This lower cost benefits the buyer immediately and provides an incentive for the producer in America to increase his efficiency, lower his production costs, and therefore lower his price.

Foreign goods often contain new ideas which also stimulate progress here. We have already mentioned the development of American compact cars as the answer to the competition from small foreign cars. Our domestic cameras, typewriters, and many other goods have similarly benefited from the stimulus that new ideas developed abroad have provided.

All this, of course, has to be balanced against the arguments of those who are most concerned with the possible increased competition that increased trade resulting from the President's proposals would mean for particular industries and particular companies. In accordance with our democratic traditions, the debate is now on, and the decision will be made by our elected representatives whom we have sent to Congress.

PHOTOS THROUGH WIDE WORLD WITH THE EXCEPTION OF COVER.

LITHO IN U.S.A.